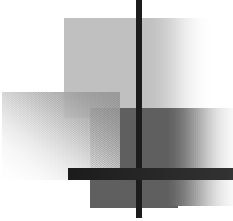


Washington State 2003-05 Budget and Revenue Preview



Prepared by the Senate Ways and Means
Committee Staff

October 2002



Part 1: Revenue Outlook



The 2001-03 GF Revenue Forecast is Now \$1.4 Billion Lower than First Projected

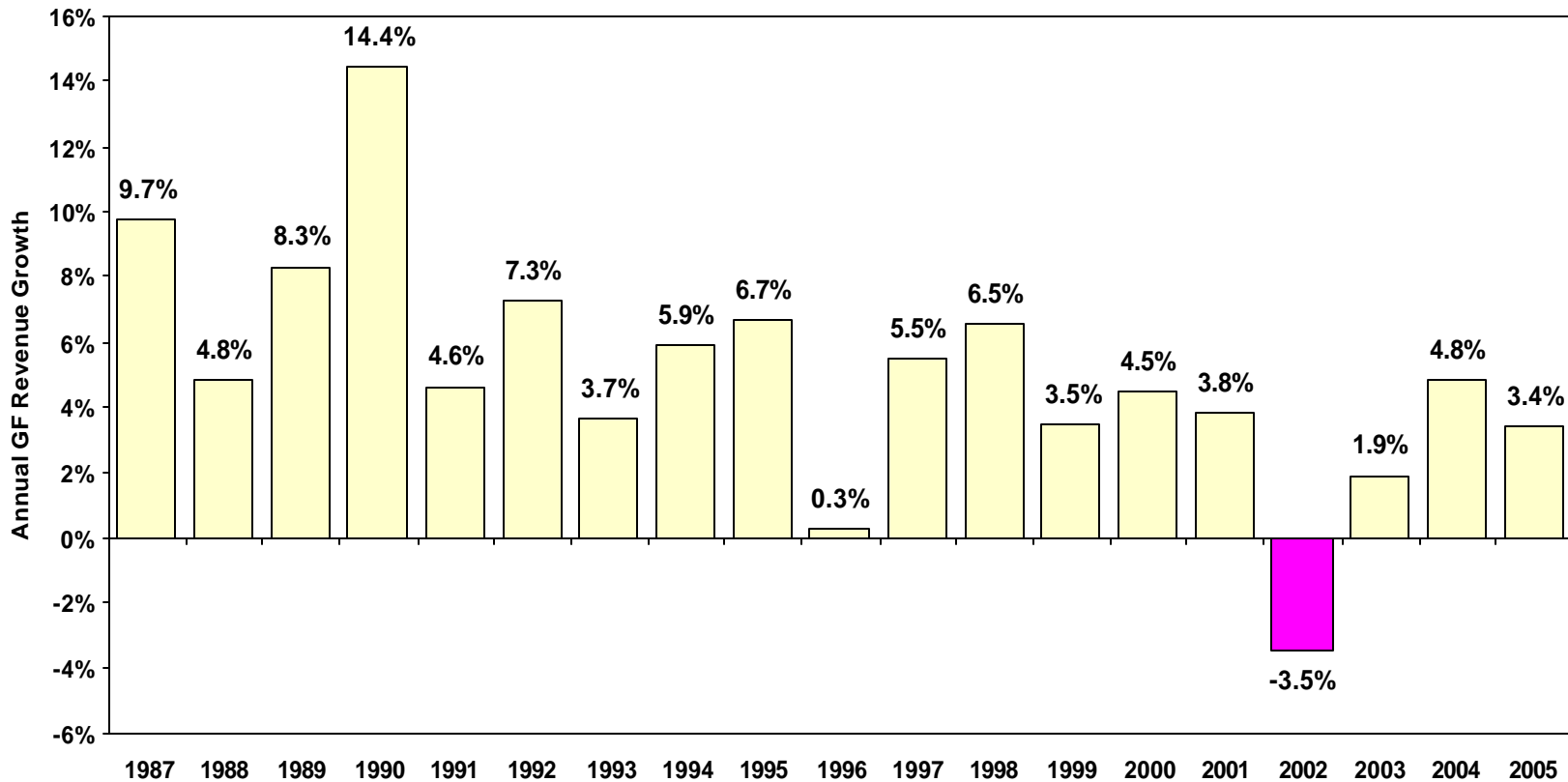
February 2000 Forecast	\$22,534
Economy Driven Changes	(1,028)
<u>Non Economic Changes</u>	<u>(399)</u>
September 2002 Forecast	\$21,106



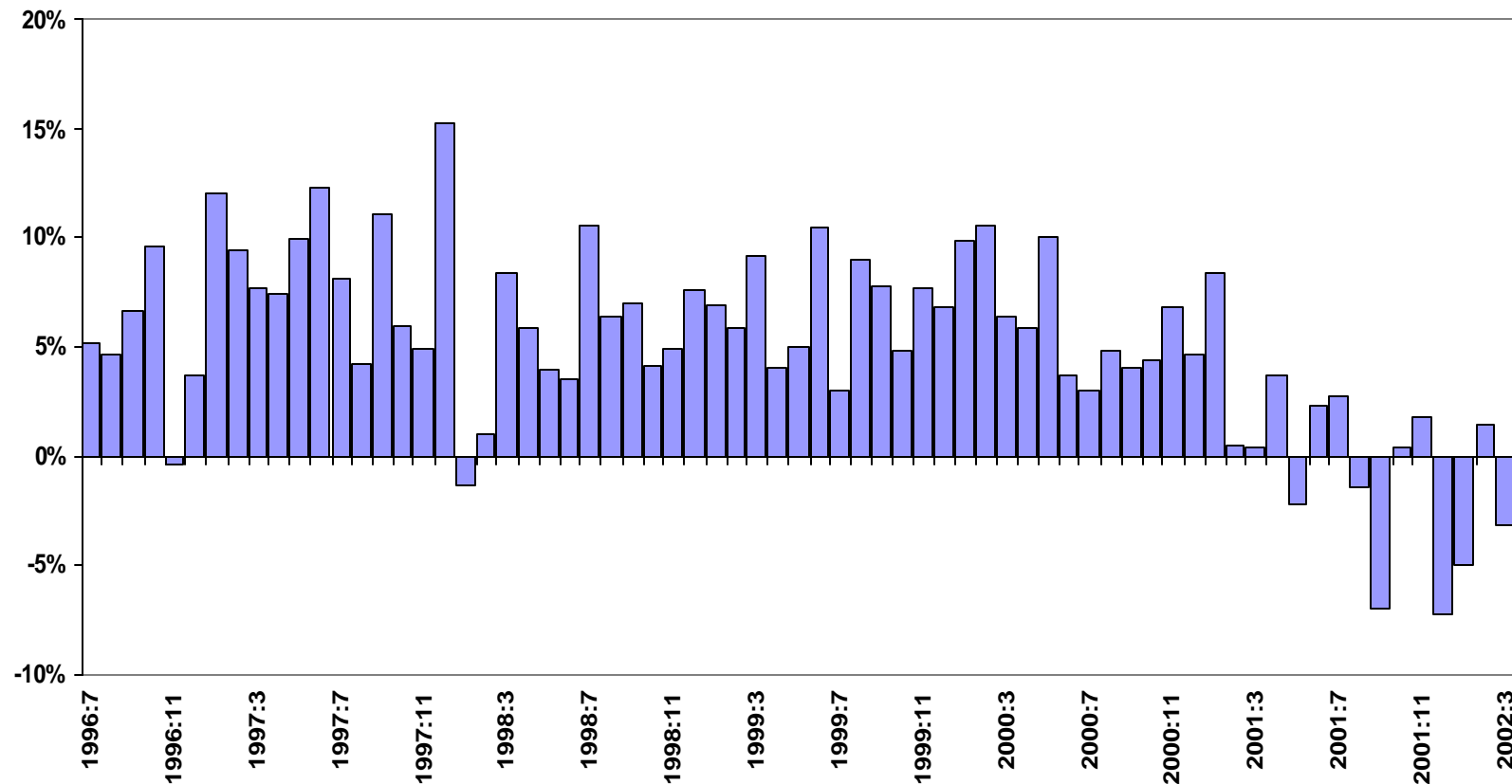
Several Factors Have Led to the Decline in Forecasted Revenue

- **September 11th and Boeing Layoffs**: The terrorist attacks lead to decreased demand for air travel and 30,000 layoffs in Boeing's commercial airplane division. This exacerbated an already deteriorating economic picture.
- **Tax Reduction Measures**: The Legislature has enacted a number of significant tax cuts since 1995. The tax increases of 1993 have been largely repealed; a major property tax cut was enacted in 1997 (Referendum 47); the motor vehicle excise tax was repealed in 2000, and a number of exemptions designed to promote economic development were passed.
- **Voter Approved Initiatives**: The voters have enacted several measures which reduced state revenues such as Initiative 728 (diversion of property tax revenue to school districts) and Initiative 747 (property tax limitation).

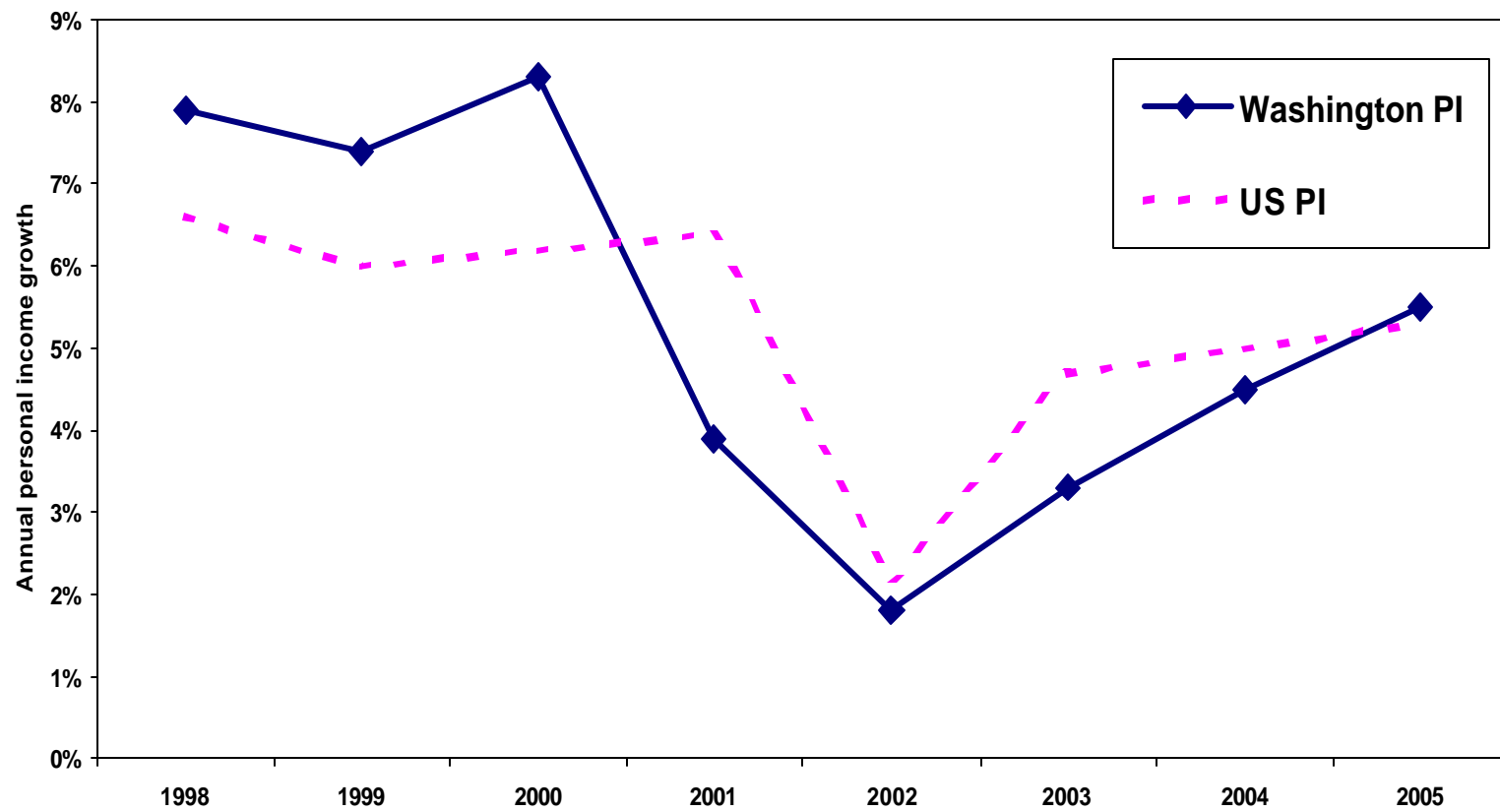
General Fund Collections in FY 2002 are Expected to be Less than FY 2001



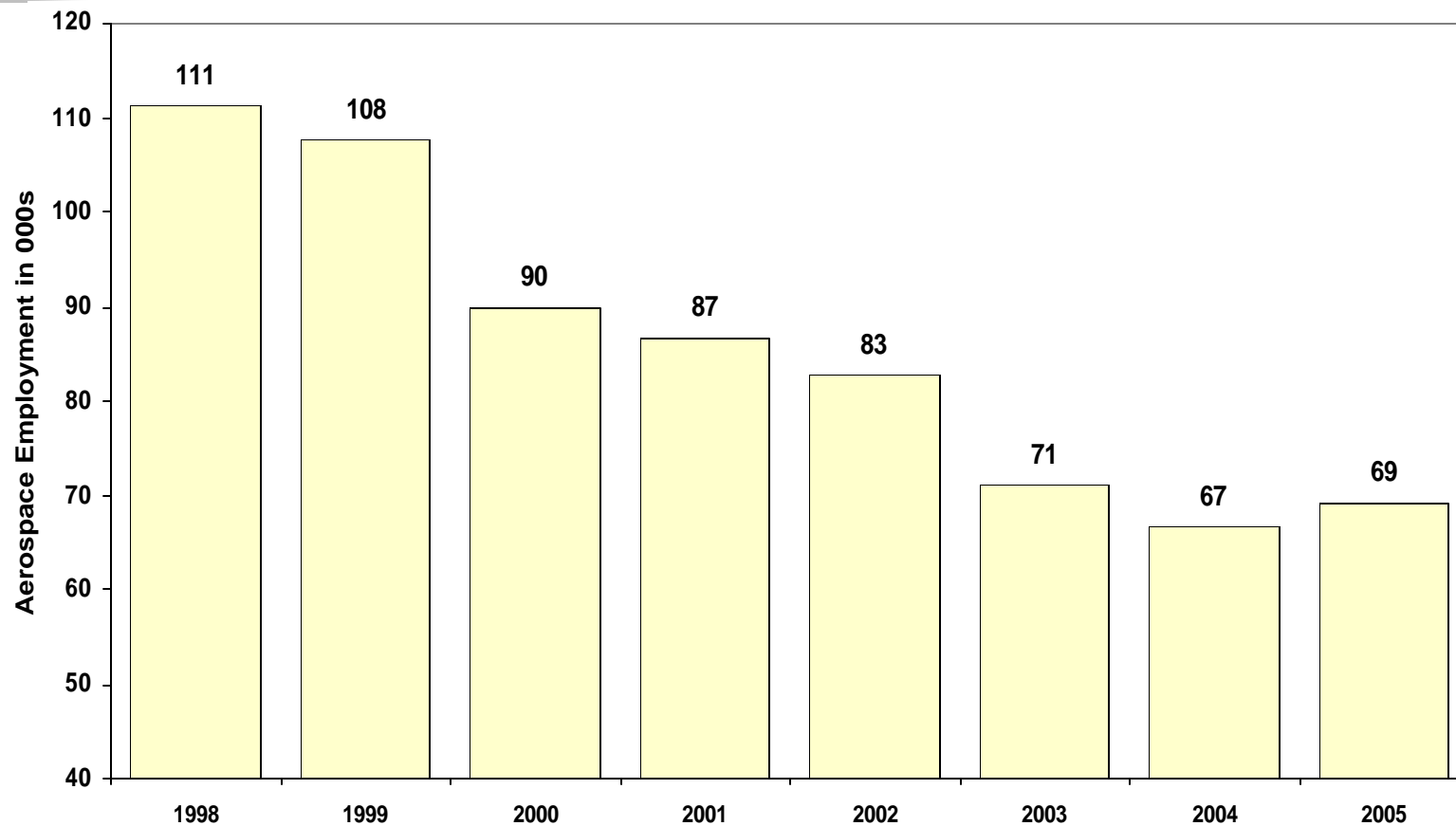
However Even Without Voter Initiatives and Tax Changes, the State's Tax Base Has Been Shrinking



Our Economy was Growing Faster, has Dropped More Suddenly and Will Return More Slowly than the U.S. Economy



Aerospace Employment was Declining Even Before September 11th





Long Term Revenue Outlook

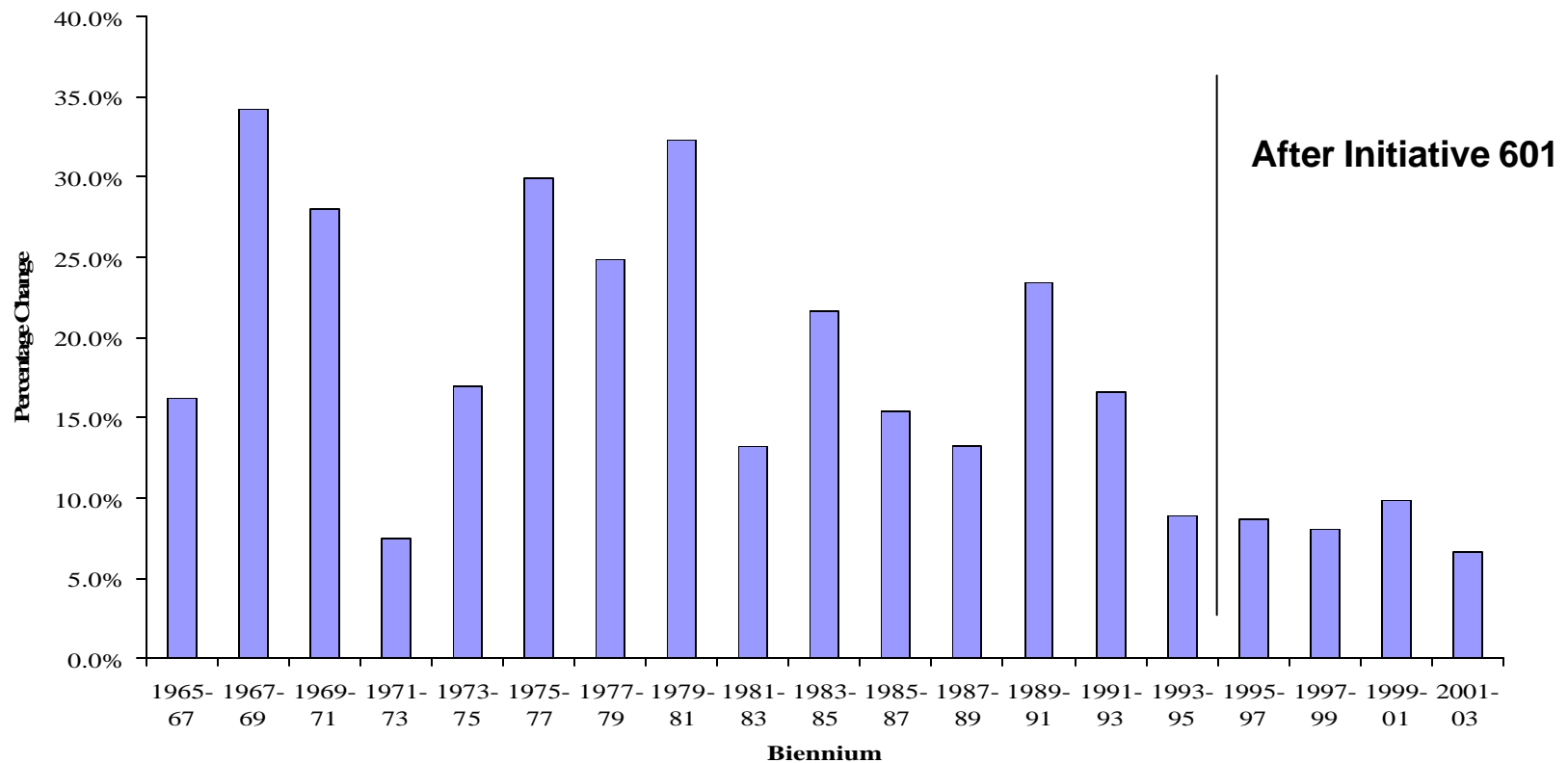
Biennium	GF Revenue	Growth
1997-99	\$19,620	
1999-01	\$21,262	8.4%
2001-03	\$21,106	-0.7%
2003-05	\$22,700	7.6%
2005-07*	\$24,837	9.4%

* Assumes “average” revenue growth of 5% per year.

Part 2: Historical Budget Context

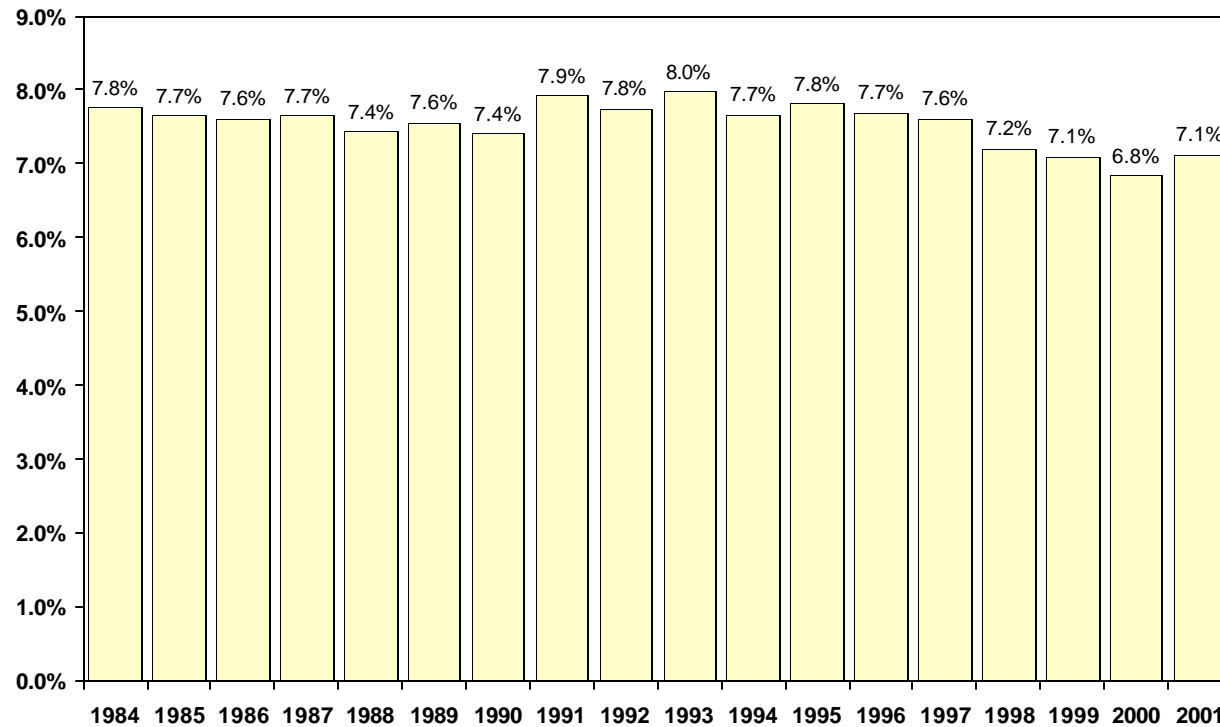


The Growth in General Fund Spending Today is Historically Low

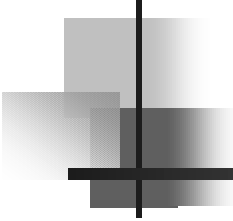


Total State Expenditures are Stable and a Slightly Smaller Share of the State Economy

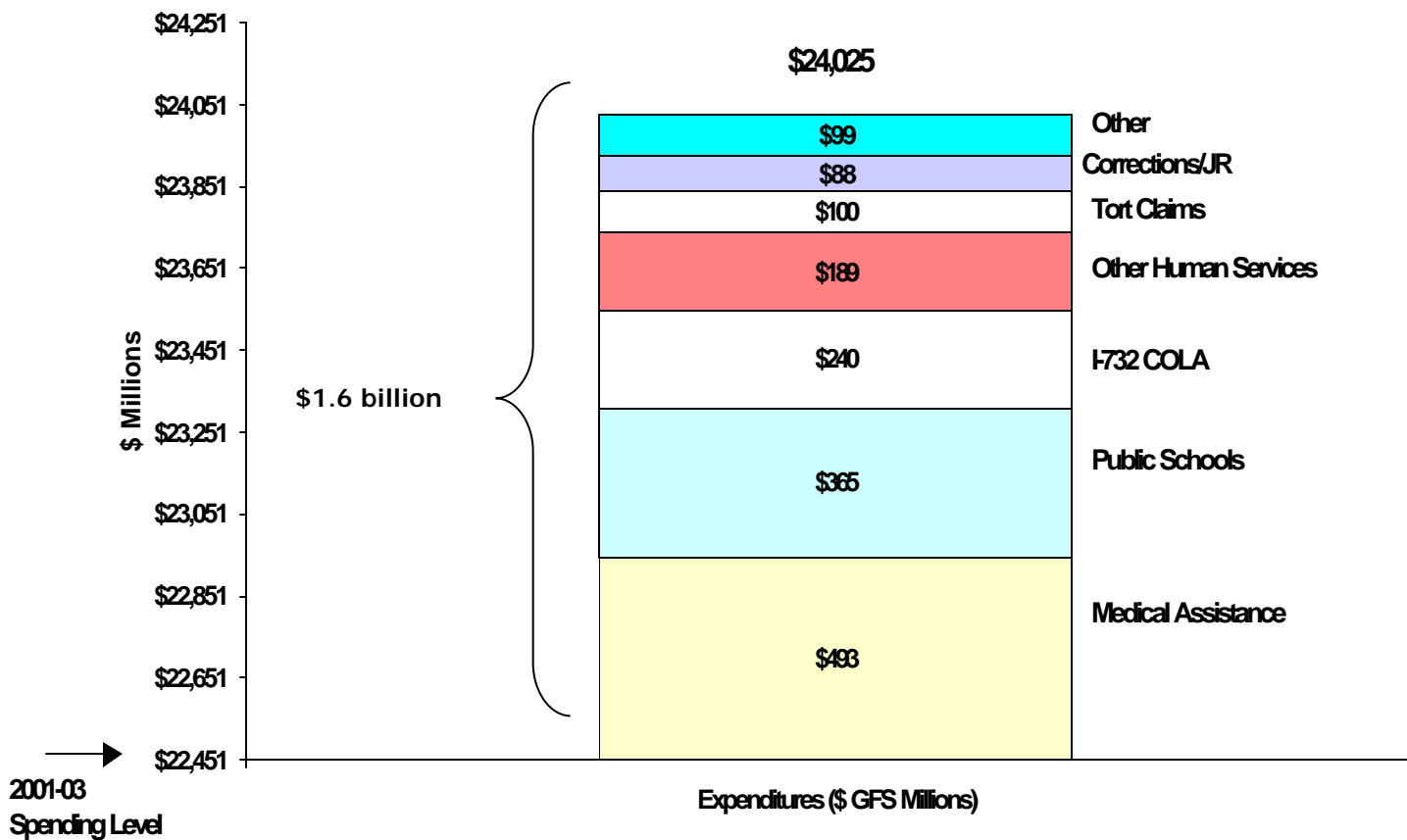
Washington State Spending as a Percentage of the Economy



Part 3: 2003-05 Budget Prospects



The 2003-05 General Fund Budget Will Need to Increase by \$1.6 Billion just to Maintain Current Services





Health Care is the Fastest Growing Area of the State Budget

- Health care costs per person have grown 3-5 times faster than average inflation. This has also been the experience in the private sector.
- Caseloads have grown nearly three times more than the growth in state population. This is due to a combination of growth in the elderly and disabled populations, outreach activities and elimination of health care coverage in the private sector.



Human Services Caseloads have Grown Three Times Faster than the General Population

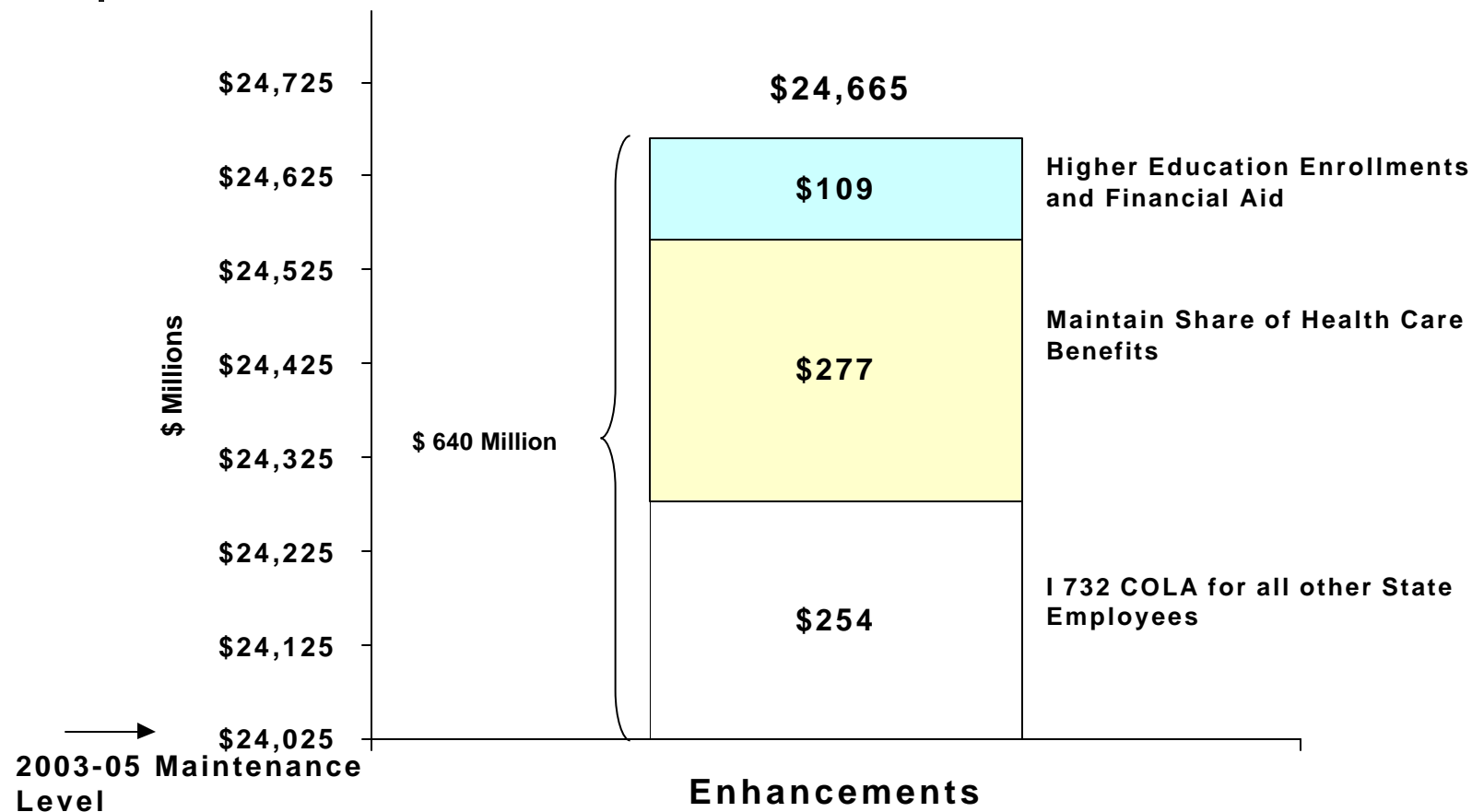
- Traditional caregivers for aged and disabled people, primarily women, are now working outside the home.
- The population 85 and older is the fastest growing age group.
- Sentencing policy changes have caused prison populations to soar.



There is Increased Demand for Higher Education Enrollments

- The 18-22 age group is growing more than twice as fast as state population.
- The Washington economy each year becomes more “high tech” based and less dependent on agriculture or manufacturing.
- Increased layoffs lead to an increased need for more re-training opportunities.

Three Customary General Fund Policy Items would Add Another \$640 Million to the 2003-05 Budget Problem





Part 4: The Health Services Account

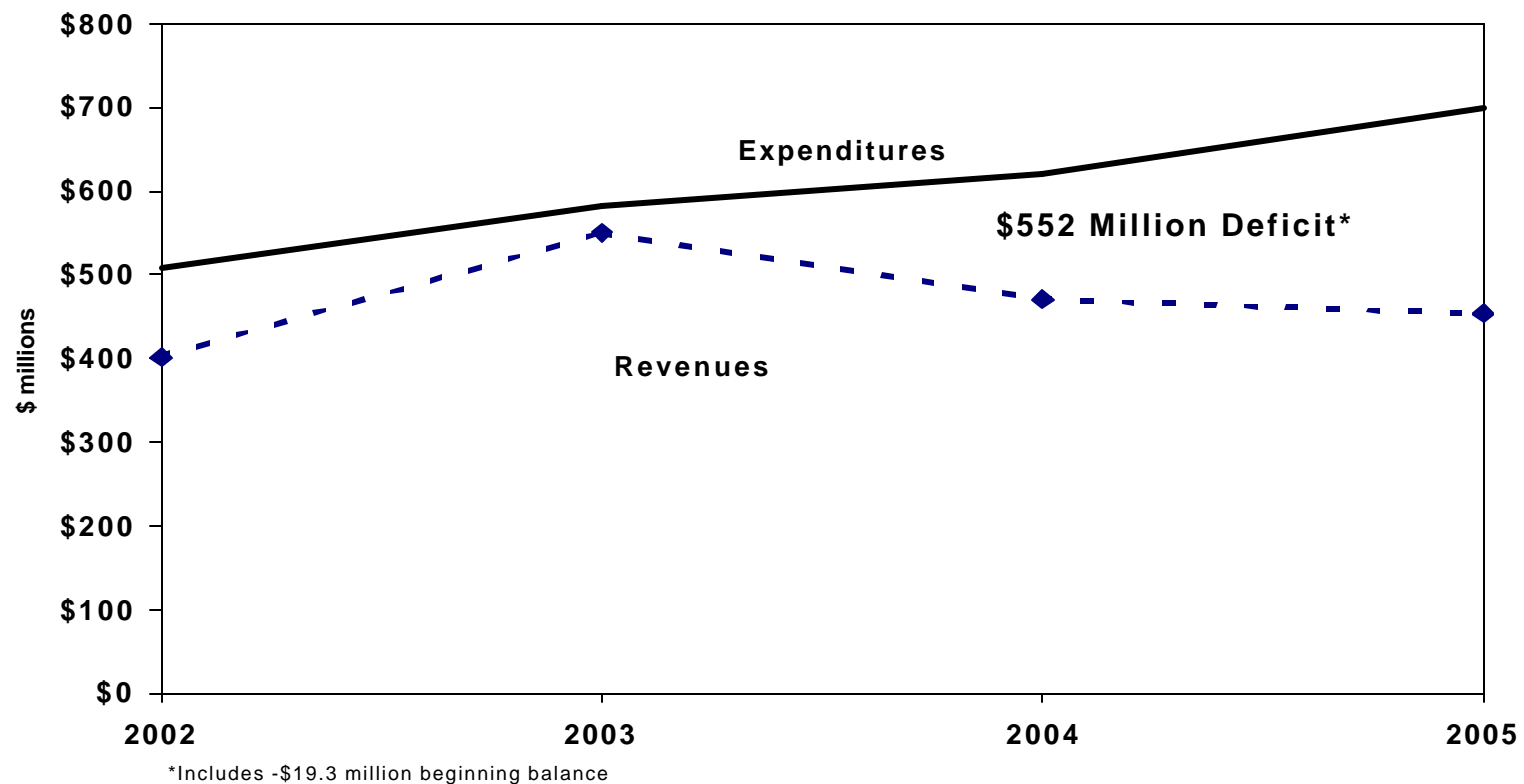


The Health Services Account is a Dedicated Fund that was Created in 1993

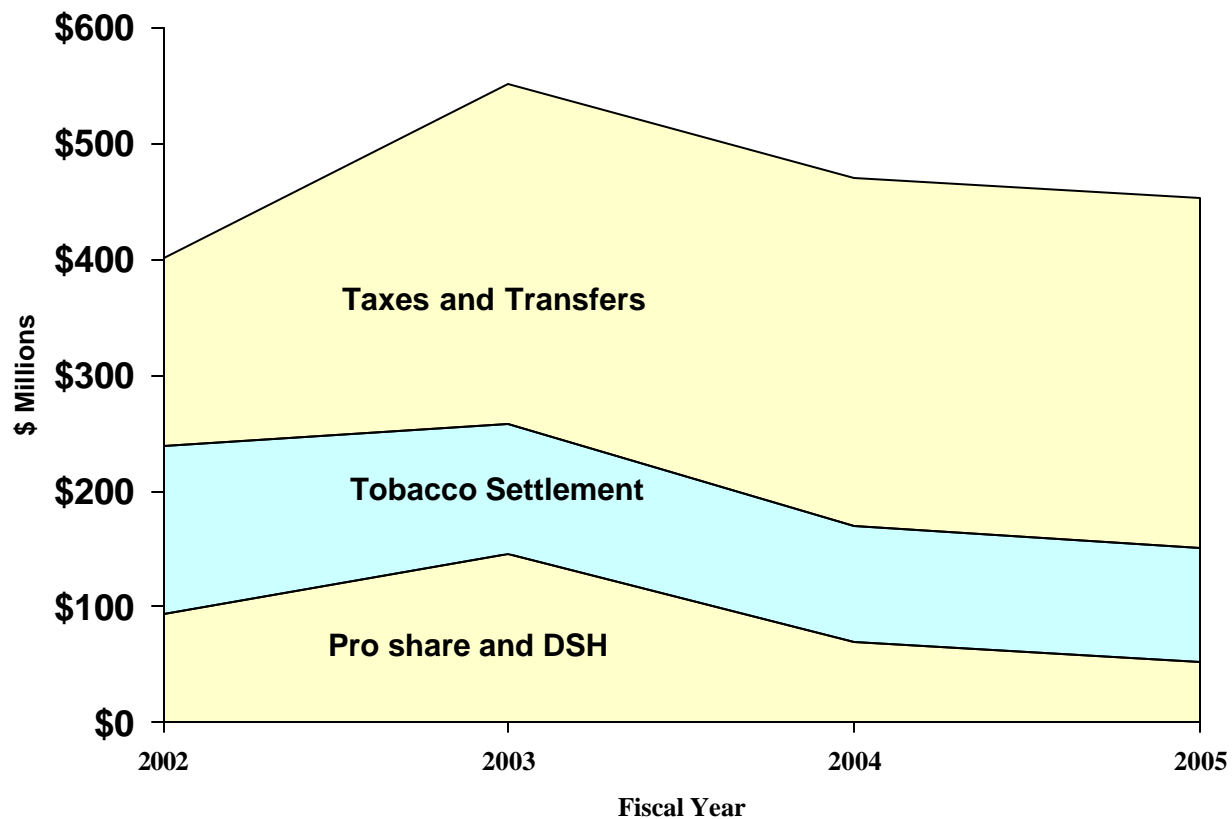
This account pays for:

- 125,000 Basic Health Plan enrollments.
- Medicaid coverage for 350,000 children with family incomes below 250% of poverty.
- Childhood vaccines.
- Assistance to county public health departments.

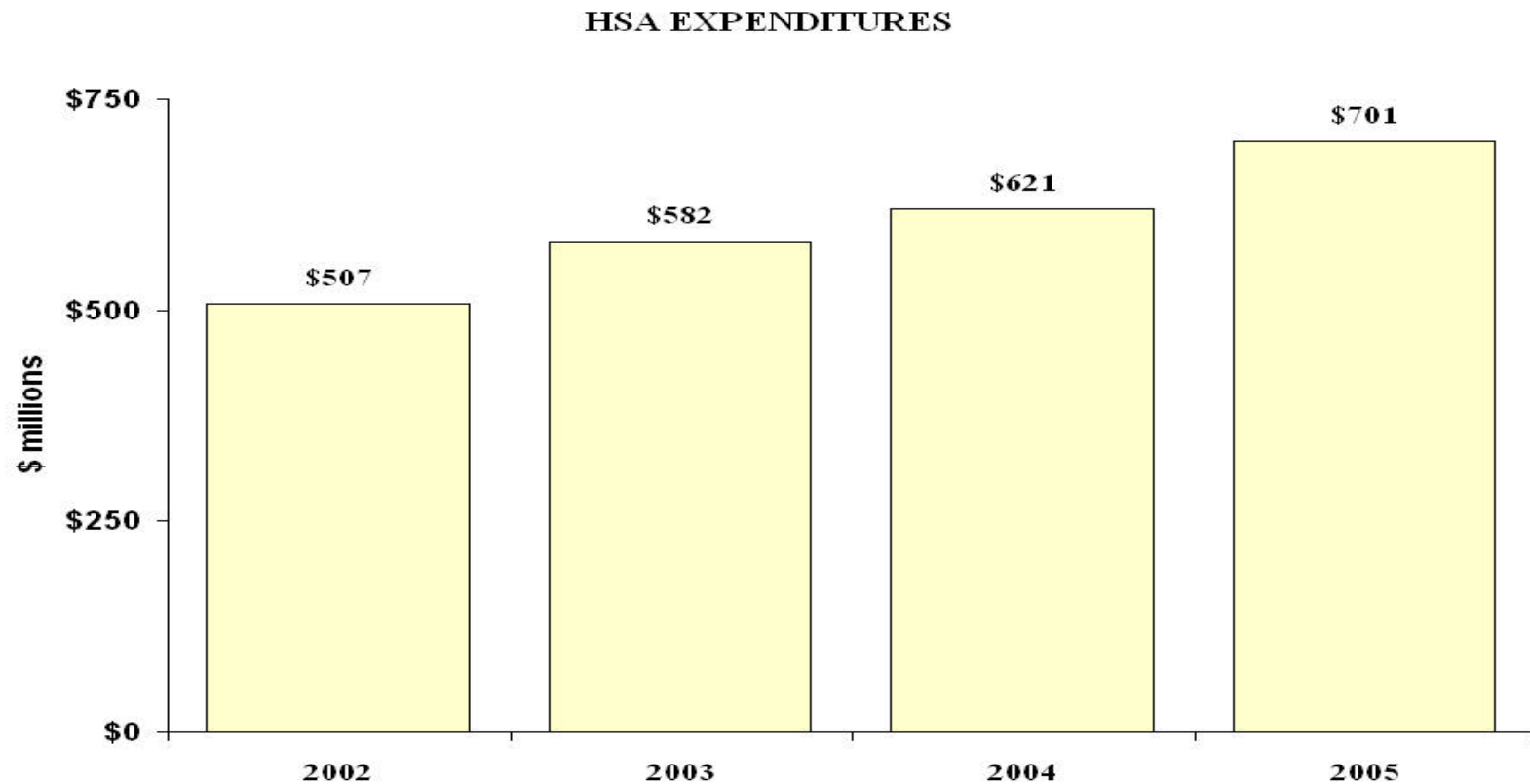
The Health Services Account has a Large Deficit



Revenue to the Health Services Account has Been Declining . . .



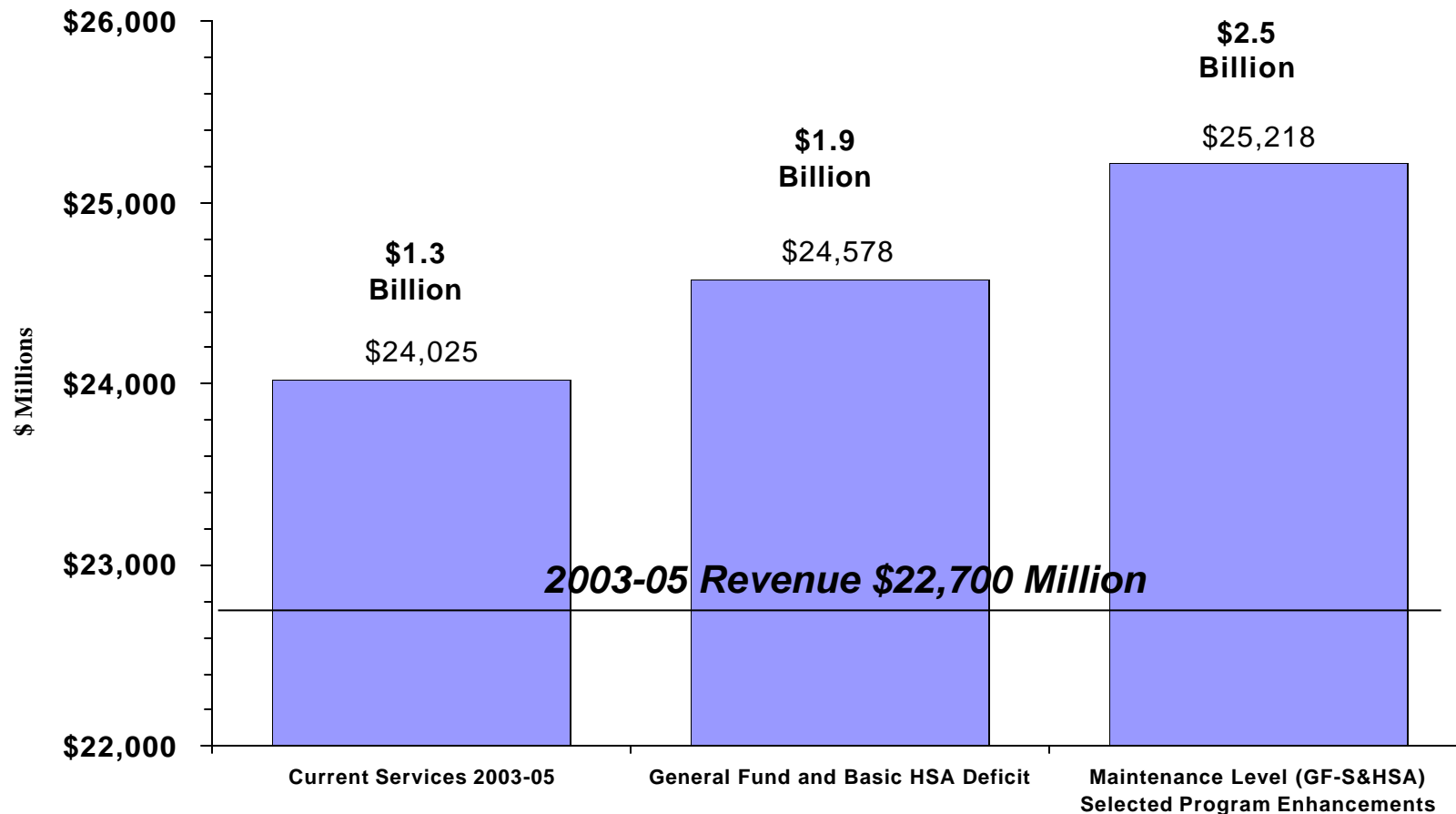
... while Expenditures are Increasing
Rapidly (11.4% per year)





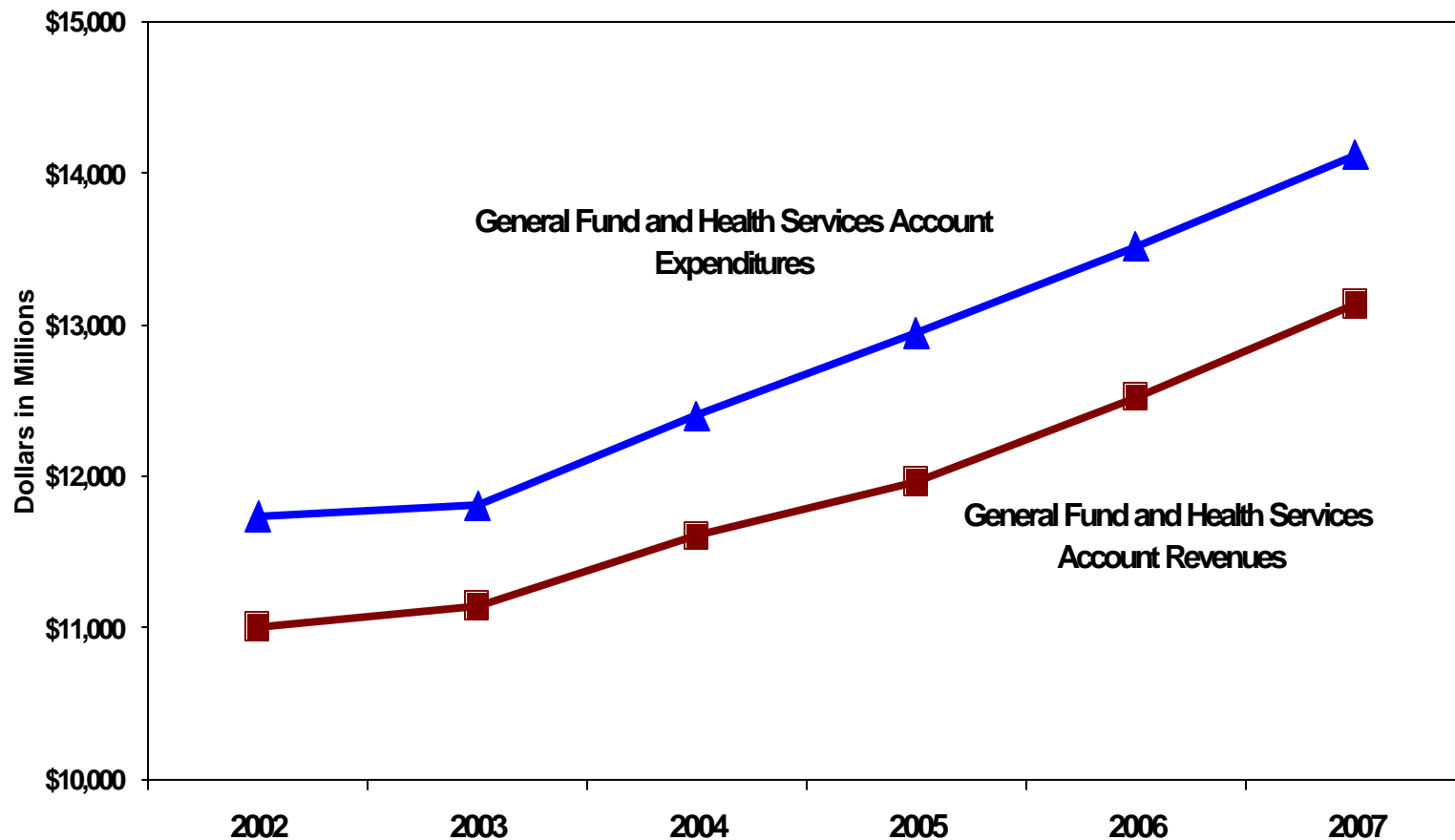
Part 5: Summary

The 2003-05 Budget Problem is Between \$1.3 Billion and \$2.5 Billion

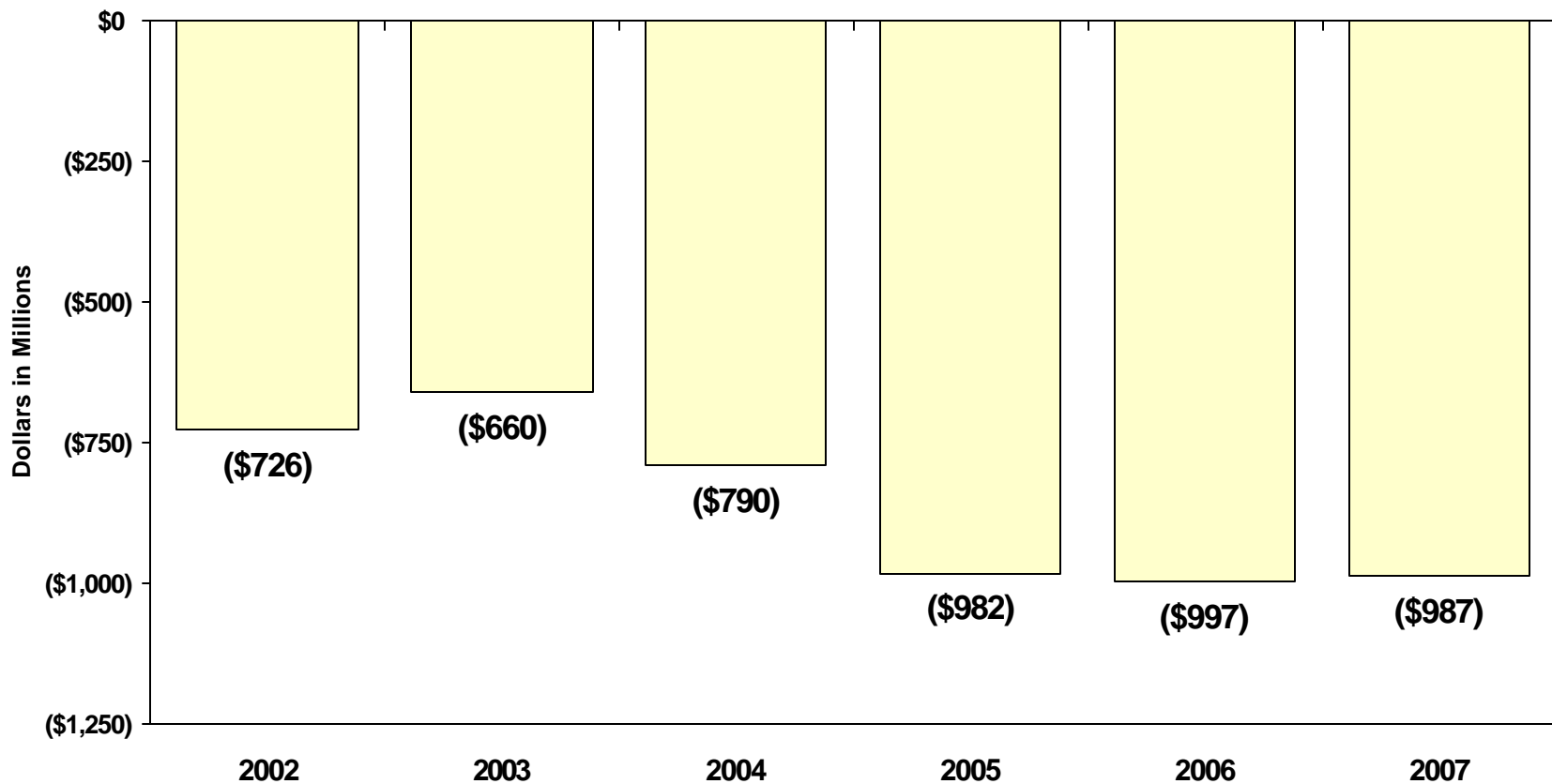


Note: The revenue amount of \$22.7 billion includes the transfer of \$772 million from the general Fund to the Student Achievement Account as required by Initiative 728.

General Fund and Health Services Account Expenditures are Expected to Exceed Available Revenues for Several Years



This Situation is Referred to as a "Structural Budget Deficit"





What Can to be Done to Close this Structural Budget Deficit?

- Eliminate or greatly reduce state programs and services.
- Adopt ongoing increases in revenue.
- Some combination of the above.